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C O N F I D E N T I A L SECTION 01 OF 03 BRASILIA 002539

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E.O. 12958: DECL: 09/22/2015

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SUBJECT: BRAZIL - CORRUPTION SCANDAL UPDATE, WEEK OF 19-23
SEPTEMBER, 2005 - CHAMBER PRESIDENT RESIGNS

REF: A. BRASILIA 2219

- [B. BRASILIA 2150](#)
- [C. BRASILIA 2082](#)
- [D. BRASILIA 2025](#)
- [E. BRASILIA 1979](#)
- [F. BRASILIA 1874](#)
- [G. BRASILIA 1973](#)
- [H. BRASILIA 1631](#)
- [I. BRASILIA 2242](#)
- [J. BRASILIA 2237](#)
- [K. BRASILIA 2305](#)
- [L. BRASILIA 2384](#)
- [M. BRASILIA 2457](#)
- [N. BRASILIA 2387](#)
- [O. SAO PAULO 1071](#)
- [P. SAO PAULO 1076](#)

Classified By: POLITICAL COUNSELOR DENNIS HEARNE. REASONS: 1.4
(B) (D).

[1.](#) (SBU) Summary. Chamber of Deputies President Severino Cavalcanti resigned both his position and his mandate this week in disgrace in the face of corruption allegations, the first Chamber leader to fall in such circumstances in Brazil's history. The resignation sets the stage for a succession contest in which President Lula da Silva's scandal-scarred PT is unlikely to have sufficient unity or clout to elect one of its own to the position, though it reportedly may back Aldo Rebelo, a well-regarded communist deputy who served as a minister in Lula's government. Seeking to avoid the humiliating failure that brought the obscure Cavalcanti to the Chamber presidency last February, Lula's government and the PT may have to accept a candidate from the PMDB party (Michel Temer's name is emerging prominently) if it hopes to avoid a hostile opposition party figure in the Chamber's presidency at this critical juncture. In a related development, a convicted money launderer alleged that the illicit PT financial scheme that paid bribes to allied party congressmen (refs) also paid Cavalcanti the equivalent of 3.5 million dollars to assure Cavalcanti's cooperation with the Lula government once Cavalcanti assumed the Chamber presidency. A poll this week indicates continued downward trends in public perceptions of Lula and his chances for re-election. End summary.

CAVALCANTI RESIGNS: REPLACEMENT STILL UNCERTAIN

[2.](#) (U) On 21 September, Chamber of Deputies President Severino Cavalcanti (U.S. Speaker of the House equivalent) delivered his resignation speech before the lower house plenary, in the wake of credible accusations that Cavalcanti extorted kickbacks from a restaurant owner in exchange for a restaurant concession in the Congress building (Ref. M and N). Cavalcanti is the first Chamber President in Brazil's history to resign owing to corruption allegations. Earlier this week, the restaurant owner's allegations were reinforced when the Brazilian Federal Police announced it had strong evidence that Cavalcanti had been receiving bribes while serving as the Chamber's first secretary in 2002 and 2003, and was forwarding the case to the Supreme Court (Note: With Cavalcanti's resignation, his case reverts to a normal criminal court for hearing. End Note.). In addition, on 20 September a convicted currency black market operator testified during a joint session of congressional inquiry committees (CPIs) that Cavalcanti accepted a bribe from PT elements to secure his cooperation with the GOB when he assumed the Chamber Presidency (see para 6 for details).

[3.](#) (U) During his resignation speech, Cavalcanti denied all the accusations, blamed the media, his political enemies and the "elite" for his resignation, and promised to regain his Chamber seat in 2006. A group of university students present at the session booed Cavalcanti after his speech, causing a brief tumult with security personnel and forcing the adjournment of the session. Politicians and analysts here widely regard Cavalcanti as a political hack and arch-pragmatist and were not surprised by his resignation and trifling speech. Indeed, if Cavalcanti had not resigned, a broad-based movement within the Chamber would have initiated an impeachment process against him, likely leading to his expulsion and loss of political rights for eight years. Nonetheless, Cavalcanti still tried to bargain with the

government. In return for Lula's guarantee that his appointees would not be dismissed, Cavalcanti relented on a reported threat to take medical leave and pass the Chamber's command to Chamber Vice President Jose Thomaz Nono, from the opposition PFL party. With the Speaker's resignation, Nono temporarily takes over the Chamber's presidency for a period of five plenary sessions, after which elections for a new president will be held.

14. (SBU) Cavalcanti's resignation sets off a contest in the Chamber for the new President, and puts pressure on Lula's government and on his Worker's Party (PT), which is undergoing a tense internal election process (refs p and q). The Chamber President controls the lower house's agenda, decides which bills come to vote, resolves procedural disputes, and decides on impeachment requests, in addition to being third in the succession line to replace the President. Cavalcanti's election in February 2005 was a result of the PT's inability to settle on a single candidate for the position, and represented a humiliating setback for the Lula administration and a clear sign of PT's internal schisms (Ref. O). Lula and the PT must avoid a similar disaster at this juncture. Under an unwritten rule of the Brazilian legislature, called the "Rule of Proportionality", the party with the largest caucus -- currently the PT -- has the right to nominate the speaker. But this rule was weakened by the PT's bungling in February, and, given the party's deep involvement in the corruption scandal, it lacks the political strength necessary to secure victory for its candidate. As of 23 September, there are reports that the government and PT may back Aldo Rebelo, a communist deputy from Sao Paulo who served as Lula's minister for political coordination and is a well-regarded pragmatist with good relations across the spectrum of parties in the Chamber.

15. (SBU) Still, many political analysts doubt the PT can elect the new Chamber leader and foresee challenges coming especially from the catch-all PMDB party, which has remained broadly neutral during the crisis. Losing to the PMDB would be less damaging than defeat by an opposition candidate from the centrist PSDB or right-of-centre PFL, but could still represent a serious setback, since the PMDB's likely candidate -- Michel Temer of Sao Paulo -- is from the PMDB wing that is generally hostile to Lula. Moreover, the party would control three out of the four positions in the presidential line of succession (the Senate's President is already from the PMDB) -- a matter of some significance in the event of impeachment proceedings. Along with Temer and Rebelo, the PFL's Nono is a leading contender.

BLACK MARKET OPERATOR TESTIFIES IN JOINT SESSION

16. (U) On 20 September currency black market operator Antonio Oliveira Claramunt, known as Toninho da Barcelona, testified in a joint session of the three congressional inquiry committees (CPIs) currently investigating the related corruption scandals. During his testimony, Claramunt, who is currently serving a 25-year prison sentence for money laundering, stated that the PP, through Deputy Severino Cavalcanti, received 8 million reais (approximately \$3.5 million) from businessman Marcos Valerio and currency black market operator Dario Messer at the time Cavalcanti assumed the Chamber's presidency. Claramunt also stated that Messer's operations in the currency black market were used to launder money for various PT campaigns and Deputy Jose Janene (PP), but did not present evidence confirming his accusations.

LULA'S RATINGS REMAIN ON DOWNWARD TREND

17. (U) On 21 September, IBOPE released its fourth poll since the beginning of Brazil's political crisis. Compared to the figures released in August, President Lula and his administration's ratings remain steady, but compared to previous polls, the tendency downward is confirmed: President Lula's personal approval rating of 55 percent in June, dropped to 45 percent in August and remained the same in September. Those that considered the administration good or excellent were 35 percent in June, 29 percent in August and remained 29 percent in September. In addition, the poll showed Lula and Sao Paulo Mayor Jose Serra virtually tied in the 2006 election contest.

18. (C) Comment. If the Lula government and PT caught any piece of luck in recent weeks, it may be in the fact that this week's allegations that the disgraced Severino Cavalcanti was bribed by the PT "mensalao" machine to secure his cooperation once he assumed the Chamber Presidency came from a convicted criminal, recounting second hand statements by another convict. A more credible source offering such testimony would have caused an explosion, setting up a direct nexus between the ludicrous tenure of Cavalcanti in the third most powerful office in the country and the PT corruption schemes that have rocked Brazil and Lula's government for

four months. Such a connection, if proved at some stage by stronger testimony or evidence, would raise the corruption scandal to the level of outright bribery of the leader of one branch of government by the party dominating another, taking the crisis to another dimension of gravity. In our view, that would be one development (we believe there could be others on the horizon) that could turn the tide of opinion definitively against Lula.

CHICOLA